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C O N F I D E N T I A L DUBAI 000661

C O R R E C T E D COPY - CHANGING CLASSIFICATION AND
PARAGRAPH MARKINGS

SIPDIS

DEPT NEA/ARPI FOR BAGWELL; TREASURY FOR SAEED, KAPROTH, TURNER

E.O. 12958: DECL: 12/9/2017

TAGS: [ECON](#) [EFIN](#) [EINV](#) [TC](#) [AE](#)

SUBJECT: TREASURY PDAS SAEED DISCUSSES SOVEREIGN WEALTH FUNDS WITH
DUBAI EXECUTIVES

Ref: None

CLASSIFIED BY: Paul Sutphin, Consul General, Consulate Dubai,
DOS.
REASON: 1.4 (b), (d)

11. (C) Summary. Department of the Treasury Principal Deputy Assistant Secretary Ahmed Saeed met with senior executives from the Dubai-based Sovereign Wealth funds (SWFs) and financial institutions including Dubai International Financial Centre Authority (DIFC), Dubai International Capital, Dubai Investment Group and Dubai World on September 20 in Dubai. While encouraging the executives to continue investing in the US, Saeed also proposed that SWFs work collaboratively with the International Monetary Fund (IMF) and World Bank to develop a set of SWF best practices for governance, risk management, accountability and transparency. Dubai executives generally expressed concern about a perceived rise in investment protectionism (including Committee for Foreign Investments in the US (CFIUS) review procedures), but either indicated general support for or a willingness to discuss further details of the best practices proposal. End Summary.

12. (U) PDAS Saeed's delegation included Treasury International Monetary Policy Director Robert Kaproth, Economist Matthew Turner and Attachi Matthew Epstein. Consul General Paul Sutphin and note taker were also present. They met with Nasser Al Shaali, the Chief Executive Officer (CEO) of Dubai International Financial Centre Authority (DIFC); Sameer Al Ansari (Executive Chairman and CEO) and Anand Krishnan (Chief Operating Officer) of Dubai International Capital (DIC); Thomas Volpe (Group CEO) of Dubai Investment Group (DIG); and Jamal Majid Bin Thaniah (Vice Chairman of Dubai World), along with Mohammed Sharaf (CEO) and George Dalton (General Counsel) of Dubai World subsidiary DP World.

SWF Best Practices Proposal

13. (U) Referencing Treasury Assistant Secretary Clay Lowery's June 21 speech at the San Francisco Federal Reserve Bank and President Bush's May 10 statement on trade and investment, Kaproth and Saeed emphasized the United States' firm commitment to maintaining an open foreign investment climate. Kaproth also noted that the rapid increase in the sheer number and size of SWF assets over the past five years has resulted in an important structural shift in the global economy. The underlying implication of this shift is that while many SWFs typically pursue long-term investment strategies (complimented by low

leverage rates and invulnerability to forced investor withdrawals), these funds also represent large, concentrated positions and are not always transparent to the market. The lack of transparency and potential for fund mismanagement is driving increased public scrutiny and potentially contributing to protectionist sentiments in OECD countries.

¶4. (C) To head off the risk of growing protectionism, Saeed proposed that SWFs work with the International Monetary Fund (IMF) and World Bank to develop a set of best practices for SWFs. The best practices could focus on institutional arrangements including governance, transparency and accountability, internal controls, and risk management, but should not dictate how funds actually invest their money. Kaproth suggested the best practices would provide guidance to new funds on how to structure themselves, allow funds to differentiate among themselves, thereby limiting reputational risk, and demonstrate to critics that SWFs can be responsible, constructive participants in the international financial system.

Sovereign Wealth Fund definition questioned

¶5. (C) Responding to Saeed and Kaproth's proposal, Shaali (CEO, DIFC) suggested that there is a public misperception about SWFs and that the name, in fact, is actually a misnomer. While the funds are ultimately owned by a "sovereign" entity, the funds operate independently on the open market, with a traditional profit and loss responsibility and a mission to generate cash, like any other investment fund. Historically, he commented, the track record of SWFs in developed markets has shown that fund actions are market-determined, not political.

¶6. (C) While acknowledging the potential value of a tool to

distinguish among SWFs, Ansari (CEO, Dubai International Capital) argued strongly that Dubai International Capital (DIC) is not a SWF. "We are not owned, structured or guided by the government. Our owner (Sheik Mohammed bin Rashid, Ruler of Dubai, Prime Minister and Vice President of the UAE) is registered in a private capacity and we are a private company, which we can prove in a court of law. However public perception is that we are a SWF, and we need to deal on the basis of that perception." Ansari elaborated that DIC's goal is to be comprised, eventually, of 90% non-government funds. He was clear that DIC "wants to get away from being seen as a SWF." (Note. He did not elaborate on what percentage of current funds are either governmental or personal funds of MbR. End note)

Guidelines and Reviews-Increased protectionism?

¶7. (C) Responding to Saeed's proposal that best practices would provide a structured tool for differentiating between SWFs and vetting whether some funds are supporting foreign policy objectives rather than pursuing a return on investment, several of the Dubai executives expressed concerns that the "tool" could evolve into increased protectionism and thus add to already high costs of doing business in the US. Shaali noted that while guidelines are, in principle, "aligned with the intent to create transparency", they are unfortunately "often the prelude to protectionism itself." Dalton (Legal Advisor, Dubai World) went a step further, speculating that the guidelines might be a "move towards a more regulatory environment in the US" adding that CFIUS review already "feels like it is moving towards a mandated process." He asked, with genuine concern, "Is this another such process?" Saeed responded that while there can be no guarantees, best practices would be voluntary, and actually serve the common interest of avoiding protectionism.

¶8. (C) All of the Dubai executives brought up the higher relative difficulty and costs of doing deals in the US in comparison with almost any other market, but admitted, that with a good communication strategy, they still can and do get deals

done in the US. They pointed to the challenge and costs of complying with CFIUS reviews and, perhaps more important, the political risks even when CFIUS OKs a transaction - with the (unsurprising) example of the DP World's 2006 problems still fresh in their minds. Krishnan (COO, Dubai International Capital) equated the new guidelines with the current CFIUS process, noting "Every time we do invest in the US, we have to go through CFIUS process and we wonder about the outcome." Thomas Volpe, (Group CEO, Dubai Group, an investment arm of Dubai Holdings) complained that the structuring of the current Borse Dubai/ NASDAQ deal hinged on keeping "off Congress's radar screen" and submitting to an "unnecessary" CFIUS review. Dalton noted, with some exasperation, that Dubai World has even decided to submit its recent purchase agreement for a 25 percent stake in MGM Mirage and Las Vegas Center City operations to a CFIUS review. He commented "I'm not sure why --there is no security need, but we decided to take the safer, conservative route. It's seen as safer to file than not to file."

¶9. (C) The underlying sentiment was best expressed by Krishnan "Sellers [of US assets] want certainty of outcome. They worry about CFIUS when dealing with us. It's about financial returns. The global market is open to us-if the US is not open, OK, we'll go elsewhere. But we want to be in the US."

Comment: We are willing to work with you, in principle

10 (C) Comment: Despite complaints about the excess cost and extended time requirements of doing business in the US, all Dubai executives either welcomed the proposal for SWF best practices or expressed a willingness to consider further details of the proposal. While Shaali (whose role is more focused on managing the DIFC than any particular SWF money) would only agree "in principle we are aligned with the intent to create transparency," Volpe (an experienced American fund manager) volunteered that Dubai Holding Chairman Mohammed Gergawi would be "really willing and able, I can assure you 100%, . . .to help you." Ansari (who also works for Gergawi as part of Dubai Holding) stated his support for best practices as helpful for everyone, even while insisting DIC is not a SWF and such guidelines might then not apply to it. End comment.

Background:

¶11. (C) Two of the key parastatal companies that make up "Dubai Inc" are Dubai World and Dubai Holding, both fully owned by UAE Vice President, Prime Minister and Dubai Ruler Sheikh Mohammed bin Rashid al Maktoum (MbR). The leaders of these organizations are two of the most powerful men in Dubai and close confidantes and advisors to MbR. Mohammed Abdullah al Gergawi also is a full federal minister in the UAE (Cabinet Affairs), as well as President of MbR's Executive Office (roughly equivalent to White House Chief of Staff) in addition to his role as Executive chairman of Dubai Holding. Sultan Ahmed bin Sulayem, Chairman of Dubai World (with 50,000 employees, 30,000 of whom work for subsidiary DP World) focuses on expanding Dubai World's growth internationally through its ports operations, and at home, with its flagship Palm Island and Dubai World Central freight/airport developments.

¶12. (U) In addition to DP World, other significant companies falling under the Dubai World umbrella include Palm Islands developer Nakheel; JAFZA/Jebel Ali Free Zone Authority (which runs the vitally important port and free zone of Jebel Ali, and is looking to expand its operations overseas), and Istithmar (a private equity firm that recently purchased retailer Barneys New York). The Dubai Holding group includes Tatweer, a leisure (Dubailand, Dubai Universal theme park) and knowledge industry developer (Dubai Healthcare City); Dubai Group (private equity and portfolio management across sectors, owns the Essex House hotel in NYC); Dubai International Capital (international investment management, recently acquired Doncasters and the Tussauds Group); and the Jumeirah Group (hotels and leisure

properties, including the Burj al Arab Hotel and management for the Essex House).

¶13. (U) This cable has been cleared by A/S Saeed's delegation.
SUTPHIN